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Analysis of Potential Impacts of Foreign Sanction on Cambodia's Economy

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Abstract

Cambodia's Gross Domestic Product (GDP) contributed 0.03 percent of the world economy. Cambodia economy has grown around seven percent. Cambodia's economy was led by growth in garment exports. Cambodia's economy was related with other countries through exports and imports. The Trump administration has imposed visa sanctions against Cambodia and likely to make economic sanction on Cambodia. To understand the potential impact of the sanction, a research into "Potential Impact of Foreign Sanction on Cambodia's Economy" has been proposed. Two research objectives were (1) to analyze potential impacts of foreign investment in Cambodia and (2) to analyze potential impacts on employment of Cambodians. This research focuses only trade sanction that limits or potential restriction of textile, clothing and footwear export from Cambodia to European Union (EU) and United States (US) as independent that would potentially impact on seven independent variables including garment and footwear valued added to GDP, Cambodia's exports, products exported to US and EU, worth of textile, clothing and footwear exports, garment and footwear investment factories, employments in garment and footwear, workers' wages in garment factories and footwear factories. The secondary data was collected. The data was collected from varied sources. After the data and information collected, data entry was done into Microsoft (MS) excel. The descriptive statistics like table and bar-charts were used for this research. The research found out that Cambodia's economy was likely to be negatively impact from EU's and US's sanctions on Cambodia.

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The impacts included reduction of GDP value, potential loss of Cambodia export of textile, closure of garments and footwear factories, unemployment and loss of workers' incomes in textile, clothing factories and footwear factories. There are some recommends: maintaining good relation with EU and US, exploring new markets of garments and footwear products, exploring impact of the close of visa of some top government officials to US on Cambodia's economy, the impacts of products imported from EU on Cambodia. The more studies on other scenario of sanction on Cambodia and indirect impact and impacts of foreign aid reduction or withdrawal on Cambodia's economy should be done.

Keywords: Potential Impacts; Foreign Sanction and Economy.

1. Introduction

1.1. Background

The Gross Domestic Product (GDP) worth of Cambodia shared 0.03 percent of the world economy. Cambodia's GDP was 18.05 billion US dollars in 2015. GDP in Cambodia averaged 4.93 United States Dollar (USD) billion from 1960 until 2015. It reached 18.05 USD billion in 2015 [11]. The GDP in 2016 was 20.02 billion USD [6].

Cambodia's GDP has maintained its growth around seven percentage since 2012. The increases in GDP in Cambodia were 7.3% in 2012, 7.4% in 2013 and 7.1% in 2014. The growth of GDP in 2015 and 2016 was 7% [1]. The GDP was forecasted to increase 7.1% in 2017 and 2018 [1]. Cambodia's economic activities have expanded and these have been led by growth in garment exports and strong construction activity. Real growth was projected to reach 7.0 percent in 2016, in line with the resilient performance across the region. The economy was projected to sustain its high growth trajectory, expanding at 6.9 percent in both 2017 and 2018 propelled by exports and government consumption. The agriculture sector was expected to improve slightly due to better weather conditions [12]. Cambodia economy was related with other countries through exports and imports. It suggested that the total export of Cambodia was \$8,542,433,639 and import was \$10,668,923,432 in 2015. The exports of goods and services contributed 61.28% of GDP in 2016 and import of goods and service was 65.67% of Cambodia's GDP [4]. US's Trump administration has imposed visa sanctions against four countries including Cambodia [9]. Later on, Cambodia's government faced international criticism and European Union has raised a potential threat to vital trade preferences [10]. The European Union has last warning for Cambodia to stop or cancel the export tax exception on clothing [7]. Furthermore, Sweden has officially decided to stop aiding Cambodia [3]. As Cambodia has sanctioned by US on Visa for top government officials and other foreign countries has confirmed their likely sanction on Cambodia and based on [8] indicated that three US, EU and Australian will make sanction on Cambodia. With this reasons, a research has proposed on the topic "Analysis of Potential Impacts of Foreign Sanction on Cambodia's Economy."

1.2. Objectives

Two research objectives are proposed as below

- To analyze potential impacts of foreign investment in Cambodia;
- To analyze potential impacts on employment of Cambodians;

1.3. Scopes of research

The likely sanction of US and EU are included in the research as most of the products have been exported to US and EU. The potential impact on GDP focuses on only impact from textile and clothing and footwear export. The visa sanction from US on Cambodia's top officials was not included. Potential impacts of products imported from EU and US to Cambodia and the indirect impact on Cambodia economy, potential impacts of foreign aid on Cambodia's economy were excluded in this research.

2. Research Approaches

2.1. Theoretical review

Researcher has reviewed the concept of sanction to understand the research topic more clearly. The term "economic sanction" includes deliberate, government-inspired withdrawal, or threat of withdrawal, of customary trade or financial relations. The motives behind the use of sanctions parallel the three basic purposes of national criminal law: to punish, to deter, and to rehabilitate [2].

A sender country tries to inflict costs on its target in two main ways: (1) trade sanctions that limit the target country's exports or restrict its imports, and (2) financial sanctions that impede finance including reducing aid. Governments that impose limits on target countries' exports intend to reduce its foreign sales and deprive it of foreign exchange. Governments impose limits on their own exports to deny critical goods to the target country [2].

2.2. Research framework

There are few types of sanction. This research focuses only trade sanction that limits or restricts export from Cambodia to EU and US. Owing to time limitation, in this research, only refers to only textile and clothing products and footwear products what exported to EU and US. There are two variables: independent variables and dependent variables. Independent variables refer to EU and US restriction on imports of textile and clothing products and footwear products from Cambodia to EU and US.

Three scenarios of likely sanctions on Cambodia were proposed in independent variable. First, if US employ sanction on Cambodia, what would economic condition of Cambodia be affected. Second if Cambodia is sanctioned by EU, what would Cambodia's economy be affected. If Cambodia is sanctioned by US and EU at the same time, what would Cambodia's economy be affected? Seven independent variables were proposed in this research.

These variables are likely to be negatively impacts as mentioned when EU and US employed sanction on Cambodia. Those dependent variables included garment and footwear valued added to GDP, Cambodia's exports, products exported to US and EU, worth of textile, clothing and footwear exports, garment and footwear investment factories, employments in garment and footwear, workers' wages in garments and footwear factories.

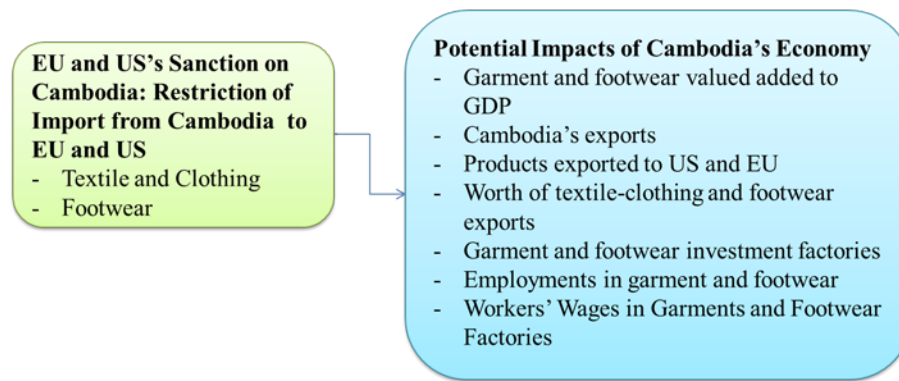


Figure 1: Research framework

Source: Research data, 2017

3. Research Methodology

The secondary data was collected. Those data included contribution of value added of garment and footwear to GDP, Cambodia's GDP, product exports to US and EU member countries, Cambodia's textile, worth of textile, clothing and footwear export to US and EU, Cambodia's textiles and clothing export and footwear export, numbers of garment and footwear factories, numbers of workers in garments and footwear, wages of garment and footwear workers. The data was collected from many sources including Trade Economic, World Trade Solution, Public Data, Asian Development Bank, World Bank, GlobalEdge and International Labor Organization. The media sources were from The New York Times, The Voice of America, Radio Free Asia and Fresh Love.

After the data and information collected, data entry was done into MS excel. The data was computed to answer to research objectives. The descriptive statistics like tables and bar-charts were used for this research. The data analysis was detailed in each chapter of the research. The data was ordered by the content of research including garment and footwear valued added to GDP, potential impact of footwear valued added to GDP, potential impacts on Cambodia's exports, all exported product to US and EU, potential impacts on textile, clothing and footwear exports, potential impact on Cambodia garment and footwear investment, potential impacts on garment and footwear's employment, potential impacts on employments in garment and footwear, potential impacts on workers' wages in garments and footwear factories.

4. Finding and Discussion

4.1. Potential Impact on GDP in Cambodia

4.1.1. Garment and footwear valued added to GDP

Based on [5], it confirmed that Cambodia's GDP has increased since 2014 and it has still maintained its growth until 2016. It was projected that it would increase in 2017, 2018 and 2019. The figure 1 showed that Cambodia's GDP in 2014 was 16,703 million. It continued to increase up to 18,083 million in 2015. The value added in garment and footwear prices for GDP were 1,683 USD million (10.10%) and 1,915 USD million in 2015

(10.60%). The contribution of garment and footwear for Cambodia's GDP increased in comparison between 2014 and 2015.

Table 1: Value added (garment and footwear) to Cambodia's GDP

	2014	2015
GDP (current prices, US\$ million)	16,703.00	18,083.00
Value added (garment and footwear, current prices, US\$ million)	1,683.00	1,915.00
Value added (garment and footwear, % of GDP)	10.10	10.60

Source: International Labor Organization, 2017

Based on the table 1, it estimates that when EU and US employ sanction on Cambodia, the contribution of value added of textile and clothing and footwear for GDP would potentially reduce as the worth of exported products declines. As large parts of the export value of the garments and footwear have been exported to US and EU where are the big markets, the restriction of the import from US and EU on Cambodia would potentially negatively affect the reduction of economics almost 10.60% of GDP. The specific impacts of EU's and US's sanction on Cambodia are detailed in next part in (4.1.2).

4.1.2. Potential impacts of EU and US imported garment and footwear value added to GDP

To estimate the potential impacts of textile and clothing and footwear exported from Cambodia to EU and US on Cambodia's GDP (price and percentage of GDP), the value added of the garment and footwear to EU and US (in price and percent) were explored separately and then the aggregate value added of garment and footwear exported to EU and US for GDP was summed up. First, the value added of garment and footwear to US (% of GDP) is a result of multiply of garments and footwear export worth to US and 10.60% and divided by total export of garment and footwear worth. Second, the value added of garment and footwear to EU (% of GDP) is a result of multiply of garments and footwear export worth to EU and 10.60% and divided by total export of garment and footwear worth. The aggregate value added of garment and footwear to EU and US is a result of sum of the value added of garment and footwear to EU and the value added of garment and footwear to US.

The table 2 showed that value added of garment and footwear to US was 3.12% of GDP or 563.53 million and to the value added to garment and footwear to EU was 4.5% of GDP or 814.58 million. The total value added of garment and footwear was 10.59% of GDP or 1,915.00 million. This data showed the potential impact on Cambodia's economy when Cambodia is sanctioned by US and EU.

When US's sanction on Cambodia is carried out, Cambodia's GDP potentially lose 3.12% or 563.53 US\$ millions due to loss of exports. When EU makes sanction on Cambodia, the GDP of Cambodia will reduce with the worth of 4.50% or 814.58 USD. The both US and EU make sanction on Cambodia; the total potential loss of GDP in Cambodia is 10.59% or 1,915.00 USD million.

Table 2: Value added of garment and footwear to EU and US on Cambodia's GDP

	2014	2015
GDP (current prices, US\$ million)	16,703.00	18,083.00
Value added (garment and footwear to EU and US, price million)	1,683.28	1,915.00
• To United States (garment and footwear)	554.60	563.53
• To European Union (garment and footwear)	678.85	814.58
• To rest of world (garment and footwear)	449.84	536.88
Value added (garment and footwear to EU and US, % of GDP)	10.08%	10.59%
• To United States (garment and footwear)	3.32%	3.12%
• To European Union (garment and footwear)	4.06%	4.50%
• To rest of world (garment and footwear)	2.69%	2.97%

Source: Research Data, 2017 calculated from table 1

4.2. Potential impacts on Cambodia's exports

4.2.1. Exported product to US and EU

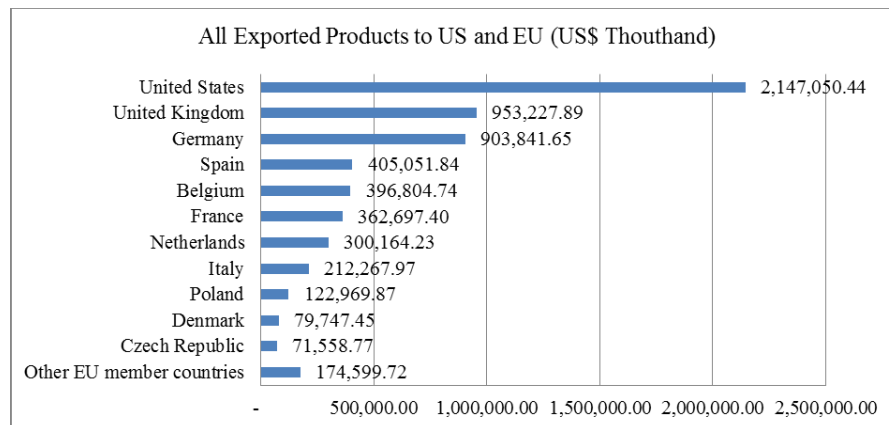


Figure 2: All product exports to US and EU member countries (value US\$ Thousand)

Source: World integrated trade solution, 2016

All of the Cambodia exported product to the world was 10,069,331,580 USD in 2016. United States and EU are the main markets for the products exported from Cambodia. World Integrated Trade Solution (2016) indicated that Cambodia's all products were mostly exported US. In 2016, those products exported to US were 2,147,050,440 USD. The product value of 953,227,890 USD was exported to United Kingdom, 903,841,650

USD to Germany, 405,051,840 USD to Spain, 362,697,400 USD to France, 396,804,740 USD to Belgium, 300,164,230 USD to Netherlands, 212,267,970 to Italy, 122,969,87 USD to Poland, 79,747,450 USD to Denmark, 71,558,770 USD to Czech Republic and 174,599,720 USD to other EU member countries.

When US makes sanction on Cambodia, it would more affect Cambodia's economy as US market were the large market where the products of Cambodia have been exported to. The saction impose of US on Cambodia would lose the export value of 2,147,050.44 millions as Cambodia would be forced to be out of Favorite Nation Country that removes import tax reduction countries. Among EU member countries, it was noticed that United Kingdom and Germany were the largest markets for Cambodia's products exported to as well. Cambodia is in EU's generalized system of preference (GSP) that all Cambodia's products exported to EU with free import tax except arms. EU's sanction on Cambodia might lose the product export value of 3,982,931.53 million a year.

4.2.2. Potential impacts on textile, clothing and footwear exports

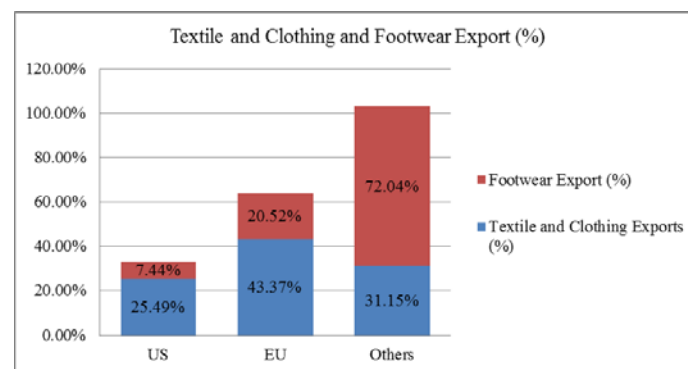


Figure 3: Cambodia's textile, clothing and footwear export to US and EU (%)

Source: World integrated trade solution, 2017

The 6,799,724,830 USD of textile and clothing worth was exported to the world in 2016. EU is the big market of textile, clothing and footwear which have been exported from Cambodia. Then United States is also the big market sizes in comparsion with other countries. Figure 9 suggested that 25.49% of the textile and clothing products and 43.37% were exported to United States and 23 countreis in EU respectively in 2016 while 31.15% of the textile and clothing products were exported to other 90 countries in the worlds.

The total exported footwear worth to the world was 825,155,980 USD. Most footwear products have been exported to EU and united states. The rest has been exported to other countries. The figure 5 showed that 20.52% of the footwear products and 7.44% were exported to 25 countries of EU and United States respectively while 72.04% of the footwear products were exported to other 77 countires in the world.

Unite Sates have been regarded as the big market size for textile and clothing products of Cambodia in comparsion to other countries. World Integrated Solution (2016) showed that 1,733,186,520 USD were exported to United States in 2016. The top ten countries where the textile and clothing products exported to included United Kindom, Germany, Spain, Belgium, France, Netherland, Italy, Poland, Czech Republic and Sweeden.

United Kingdom is the big market size in EU. The total market value for textile and clothing products exported from Cambodia to EU was 2,948,729,560 USD in 2016. Of those, 757,524.85 were exported to United Kingdom, 686,168,230 USD to Germany, 374,169,680 USD to Spain, 295,936,780 USD to Belgium, 236,211,600 to France, 223,280,350 USD to Netherlands, 156,087,610 to Italy, 91,565,310 USD to Poland, 36,255,630 USD to Czech Republic and 35,991,030 USD to Sweden.

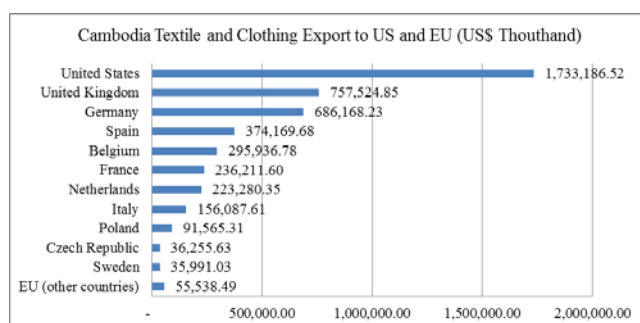


Figure 4: Textiles and clothing export (US\$ thousand) in 2016

Source: World integrated trade solution, 2016

When Cambodia's sanction is imposed by United States, this would affect textile and clothing export value of 1,733,186,520 USD of Cambodia to United State. Currently, Cambodia is a least developed country nation which is in Favoritable Nation Country that target products were exported from Cambodia to United States with import tax reduction. If the sanction of US on Cambodia is done, the tax will be increased. This is very hard to Cambodia to compete their product prices with the products from other countries where are the countries who are in Favorable Nation Countries (FNCs) that the import tax from those countries to United States. Additionally challenges are that the textile and clothing products exported from Cambodia to United States will not be able to compete with the textile and clothing product prices that are imported from the developing countries listed in Generalized System of Preference that any products of those countries could be imported to United States without import taxes.

Cambodia is also one of countries in EU Generalized System of Preference (GSP) that products from Cambodia are exported to Cambodia without EU-imported tax. When EU's sanction is done for Cambodia, EU will take off Cambodia from GSP. Cambodia's textile and clothing exported to EU would be imposed as taxes of products imported from developed countries. Cambodia's footwear product prices exported from Cambodia to EU might not survive as the footwear price from Cambodia to EU market could not compete with the footwear product price imported from other countries in EU's GSP. This might affect the total value of exported footwears is around 2,948,729,560 USD every year that is exported to EU. The exported textile and clothing worth might potentially impact are 757,524,850 USD exported to United Kingdom, 686,168,230 USD to Germany, 374,169,680 USD to Spain, 295,936,780 USD to Belgium, 236,211,600 to France, 223,280,350 USD to Netherlands, 156,087,610 to Italy, 91,565,310 USD to Poland, 36,255,630 USD to Czech Republic and 35,991,030 USD to Sweden.

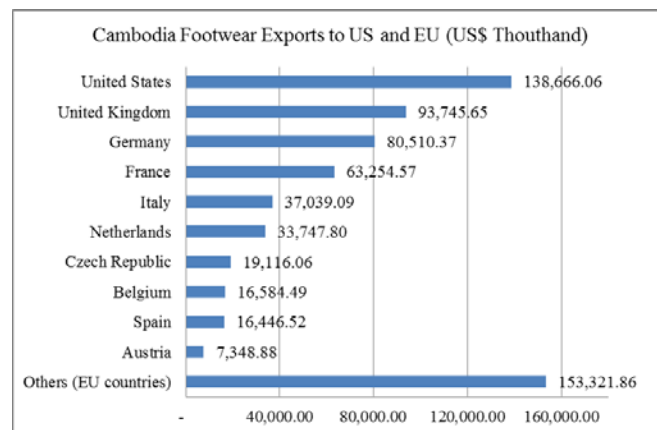


Figure 5: Footwear export (US\$ thousand) in 2016

Source: World integrated trade solution, 2016

Big market size for footwear products are united states. It showed that 138,666,060 USD were exported to United States in 2016. United Kingdome was the big market size in EU. Then, the following sizes of the countries of footwear market were Germany, French and Italy. 93,745,650 USD, 80,510,370 USD, 63,254,570 USD, and 37,039,090 USD were exported to United Kindom, Germany, Franch and Italy respectively [13].

When Cambodia's sanction is made by United States, this would affect footwear export value of 138,666,060 USD of Cambodia to United State. Currently, Cambodia is a lest developed country nation which is in Favoritable Nation Country that target products were exported from Cambodia to United States with import tax reduction. If the sanction of US on cambodia is done, the tax will be increased. This is very hard to Cambodia to compete their product prices with the products from other countries where are the countries who are in Favoriable Nation Countries that the import tax from thouse countries to United States. Additionall challenges are that the footwear products exported from Cambodia to United States will not be able to compete with the footwear product prices that are imported from the developing countries listed in Generalized System of Preference that any products of those countries could be imported to United States without import taxes.

Cambodia is also one of countries in EU Generalized System of Preference that products from Cambodia are exported to Cambodia without EU-imported tax. When EU's sanction is done for Cambodia, EU will take off Cambodia from GSP. Cambodia's footwear exported to EU will be imposed as taxes of products imported from developed countries. Cambodia's footwear product prices exported from Cambodia to EU might not survive as the footwear price from Cambodia to EU market could not compete with the footwear product price imported from other countries in EU's GSP. This might affect the total value of exported footwears are 521,115,290 USD that is exported to EU. Of those, 93,745,650 USD exported from Cambodai to United Kindom, 80,510,370 USD to Germany, 63,254,570 USD to Franch, and 37,039,090 USD to Italy might be negatively affected.

4.3. Potential impact on Cambodia garment and footwear investment

To estimate the potential impact on garment factories and footwear factories, the total numbers of the garment

factories and total footwear factories shown in figure 8 are multiplied with the percentages of garment product (25%) and footwear products (7%) exported to US and EU (43% for garment factories and 21% for footwear factories) in comparison with total export.

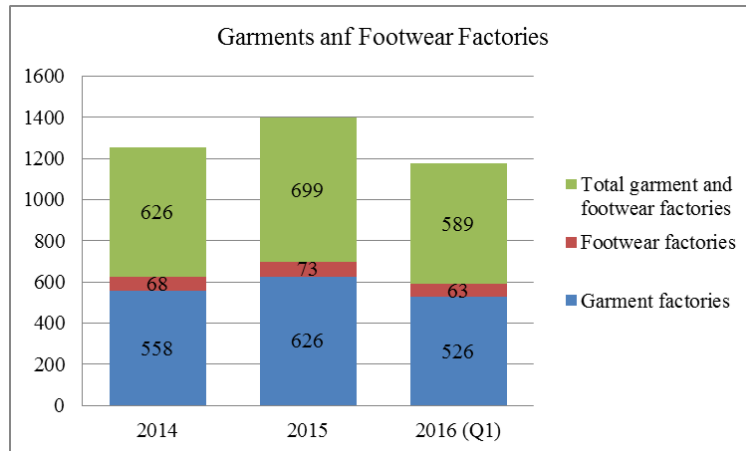


Figure 6: Garment and footwear factories

Source: International Labor Organization, 2017

In Cambodia, the numbers of factories have increased since 2014. The figure 8 showed that total garment factories in 2014 were 558 factories. The numbers of factories increased up to 626 factories in 2015. But the numbers of garment factories decreased to 538 factories in the first quarter 2016. Similarly, the numbers of footwear factories have increased in 2015. The figure 8 indicated that there were 68 footwear factories in 2014. The numbers of footwear factories went up 73 factories in 2016. But the numbers of footwear factories eased to 66 factories in the first quarter in 2016.

When US make sanction on Cambodia is carried out, 25% of 626 or 157 textile and clothing factories and 7% of 73 or five footwear factories would potentially shut down. Additionally, when EU makes sanction on Cambodia, 43% of 626 or 269 textile and clothing factories and 21% of 73 or 15 footwear factories in Cambodia are likely to close. The textile and clothing factories in Cambodia might reduce to only 31% of 626 or 194 factories while 72% of 73 or 53 footwear factories would keep remaining in Cambodia. The reductions of the numbers of factories are because of some reasons. The export taxes that the investors to pay will increase as Cambodia are out of Generalized System of Preferences and Favorite Nation Countries. This will make the cost of the garment investment increase. The cost increase leads to increase in textile and cloth and footwear's price. The price of the products would not be competitive with other products that are imported to EU and US.

4.4. Potential impacts on garment and footwear's employment

4.1.1. Potential impacts on employments in garment and footwear

To assess the potential impact on employment, the total numbers of workers who are employed in garment factories and footwear factories are multiplied with percentages of garment products and footwear products

exported to US and EU.

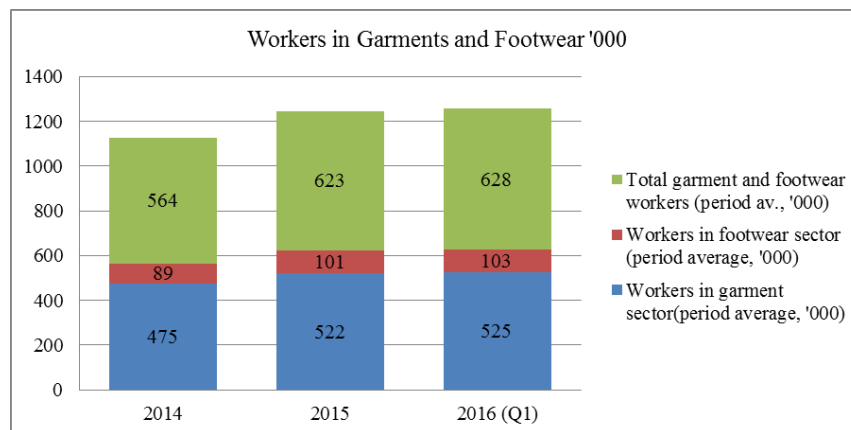


Figure 7: Numbers of workers in garments and footwear

Source: International Labor Organization, 2017

The total workers in garment and footwear factories have increased since 2014. The numbers of workers in garment and footwear factories in 2014 was 564,000 workers and it continued to increase up 623,000 workers in 2015 and 628,000 workers in the first quarter 2016. Of those workers, 475,000 workers in 2014 were in garment factories, 522,000 workers in 2015 and 525,000 workers in the first quarter 2016. The workers of footwear factories were 89,000 workers in 2014. This increased to 101,000 workers in 2015 and 103,000 workers in the first quarter 2016.

Based on the figure 9, it was estimated that when the US's sanction on Cambodia is performed, this would potentially cause unemployment in garment sectors in Cambodia. Based on the figure 9, it is estimated that 25% of 522,000 or 130,500 workers in textile and clothing garments/factories would potentially lose their job while 8% of 101,000 or 8,080 workers of footwear factories would be unemployed. When EU's sanction on Cambodia is carried out, it would also negatively impact on employments in garments and footwear factories in Cambodia. Forty-three percent of 522,000 or 224,460 workers in textile and clothing factories and 20% of 101,000 or 20,200 workers in footwear factories would be unemployed. The loses of job or being unemployed as most of the textile-clothing factories and footwear factories would be closes as stated in part 4.7. When US's and EU's sanction is made for Cambodia, employments in garment factories and footwear factories in Cambodia would reduce. Only around 31% of 522,000 or 161,820 workers and 71% of 101,000 or 71,710 workers will exist.

4.1.2. Potential impacts on workers' wages in garments and footwear factories

To assess the potential impacts on workers' wages in garment and footwear factories, the total numbers of workers who work in garment and footwear factories are multiplied with average monthly salaries of the workers who were employed in garment and footwear factories.

The figure 10 illustrated that minimum wages for workers in garments and footwear factories has been increased

since 2014 (100 USD in 2014 and 140 USD in 2016). Within three years, the minimum wages regulated by government have increased around 40%. The average wages of the workers in textile and clothing factories and footwear factories have increased gradually. On average, 146 USD in 2014, 178 USD and 190 USD were offered for workers in textile and clothing factories while 140 USD in 2014, 163 USD in 2015 and 173 USD in 2016 were offered for the workers who worked in footwear factories.

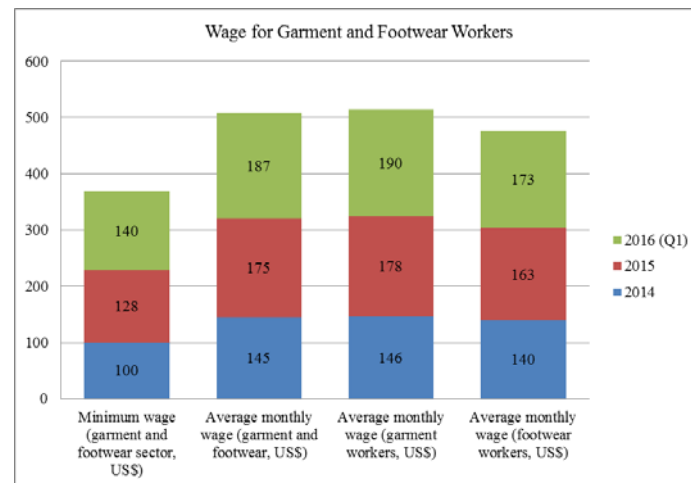


Figure 8: Wage for garment and footwear workers

Source: International Labor Organization, 2017

Table 3: Potential impact on workers' wages

Numbers of Factors	Workers Potentially Affected	Monthly Wage (\$) in 2015	Total Monthly Wages (USD)
Workers in garment sector	146,160	178	26,016,480.00
Workers in footwear sector	67,670	163	11,030,210.00

Source: International Labor Organization, 2017

When US's and EU's sanction is made for Cambodia in relation to exported tax, Cambodia people would possibly lose their job. This would affect the incomes of workers who work in textile and clothing factories and footwear factories. International Labor Organization (2017) indicated that the workers who worked in textile and clothing earn monthly average wages of 178 US\$ per month a person while those working at footwear factories earn in average of 163 in 2015. Based on the figure 13, it indicates that 28% of the total workers in textile and clothing factories and 67% of the workers in footwear factories would lose their employments. The loss of the employments in garment factories would lose total money of 24,016,480 USD per months and the

loss of the job of the workers in footwear factories would lose their incomes or salaries of 11,030,210 USD per month.

5. Conclusion and Recommendation

5.1. Conclusion

EU's and US's sanctions on Cambodia have negatively affected on Cambodia's economy. The garments and footwear value added loss potentially reduces Cambodia's GDP. This was due to potential loss of Cambodia export of textile, clothing and footwear with full tax payments of the products imported to EU and US. In addition, sanctions of EU and US might also potentially cause closure of garments and footwear factories, unemployment and incomes of workers in textile, clothing factories and footwear factories.

5.2. Recommendation

There are some recommends. Cambodia should improve political relation with US and EU in order that the economic relation can keep good relation. If Cambodia lets economic relation in worse condition, it is sure that Cambodia economics potentially get impacts as summary in finding. Cambodia should explore new markets of garments and footwear products in order that it can maintain GDP growing when US's and EU's sanction on Cambodia. There should exploration of impact of the close of visa of some top government officials of foreign affair ministries to US on Cambodia's economy. There should be exploration an exploration of the impacts of products imported from EU on Cambodia, when US and EU make sanction on Cambodia. The more studies on other scenario of sanction on Cambodia should be done as the garment and footwear products of Cambodia have been exported to other hundred countries in the world. As some of those countries are allied of US, when US and EU make sanction on Cambodia, US and EU can make pressure on their allies to pressure on Cambodia as well. The indirect impact on economics of Cambodia should be more explored like when workers are unemployed, what impacts on financial institution as financial institution also contribute for Cambodia's economic improvements. Additionally, impacts of foreign aid on Cambodia should be assed as currently some developed countries has confirmed their aid withdrawal from Cambodia and this aid also are related to Cambodia economic development as well.

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